

COVID – 19 PREMIUM REFUNDS, CREDITS, AND REDUCTIONS REPORT
EXPLANATORY MEMORANDUM
ALLSTATE INSURANCE COMPANY

Responses to stem the spread of COVID-19 have led California to implement a shelter-in-place order and see a resulting significant increase in unemployment levels, and unprecedented declines in miles driven. The rapid decline in miles driven has significantly reduced the frequency of auto accidents and resulting losses paid by insurers. Allstate has responded by announcing a Shelter-in-Place Payback (SIPP) for impacted lines of business.

As requested by the California Department of Insurance, Allstate has provided support in Section I below for lines of insurance specified in Bulletin 2020-3 determined to have no necessary refunds, and Section II for lines of insurance in which Allstate has determined a SIPP is appropriate. This Memorandum covers lines written in Allstate Insurance Company.

SECTION I: Lines of Insurance Determined to Have No Necessary Refunds

As a result of emergency and other various “stay at home” orders, a vast majority of businesses began closing or restricting access starting in the middle of March. Although these orders resulted in a significant decrease in human activity at some commercial properties, to date Allstate commercial lines have not seen a meaningful, stable reduction in claim counts for General Liability, Fire, Crime, Inland Marine, or Commercial Umbrella lines of business during the Emergency Order period.

California Commercial Lines

Claim Counts by Report Yr

Excludes Cats & COVID Business Interruption Claims

Line of Business	Avg per Month					2020				
	2015	2016	2017	2018	2019	Jan	Feb	Mar	Apr	May
Line 35 (Crime)	0.0	0.0	0.1	0.1	0.1	0	0	1	0	0
Line 41 (General Liability)	18	11	14	9	9	8	7	13	7	12
Line 53 (Commercial Umbrella)	0.0	0.1	0.0	0.0	0.0	0	0	1	0	0
Line 61 (Commercial Fire)	66	56	47	38	42	49	31	35	46	36
Line 91 (Inland Marine)	21	21	18	17	15	26	7	8	36	15

*Excluding claims reported for COVID Business Interruption due to virus exclusion

SECTION II: Lines of Insurance Determined to Necessitate Refunds

Vehicle Lines

Allstate Insurance Company is responding to the decreased frequency of auto accidents by providing SIPP to several vehicle lines of business. The data used to drive the decisions is described below, followed by quantification for each line.

- Shelter-in-place drove a significant reduction in driving in March and April.
 - Publicly available data has shown that, in the aftermath of the shelter-in-place orders, national miles driven declined 35-50% and has stayed depressed throughout April and into May.
(https://roadeology.ucdavis.edu/files/content/projects/COVID_CHIPs_Impacts_updated.pdf)
 - Shelter-in-place orders have continued to produce a depressed rate of driving and corresponding frequency of accidents in May.
- Other factors that influence overall income include the impacts on claim severities, expanded coverage, patterns of premium payments, and investment returns.
 - Reports have shown that high speed driving has modestly increased causing accidents resulting in injuries or death to fall more slowly than minor accidents.
(https://roadeology.ucdavis.edu/files/content/projects/COVID_CHIPs_Impacts_updated.pdf)
 - Severity pressure emerged at a higher rate than anticipated and is expected to continue over the next several months. Allstate's recorded position has been adjusted to reflect these impacts.
 - Special Payment Plan enrollments for Motorcycle customers increased in March and April. Deferred Billing was rolled out at the end of March for Commercial Auto. The use of these programs has resulted in higher bad debt projections.
- Weighing all of these considerations, Allstate determined to provide a payback to Motorcycle, Motorhome and Commercial Auto. The amount of payback is specified below. Allstate continues to monitor the pandemic impact on these factors.

Motorcycle

At the time of Allstate's first SIPP announced on April 6, 2020, the decline in Motorcycle frequency was not as apparent as Private Passenger Automobile. Therefore, Allstate did not issue a SIPP to Motorcycle policies. However, as seen in Exhibit 2 below, the Motorcycle frequency continued to deviate further below prior year in April and May.

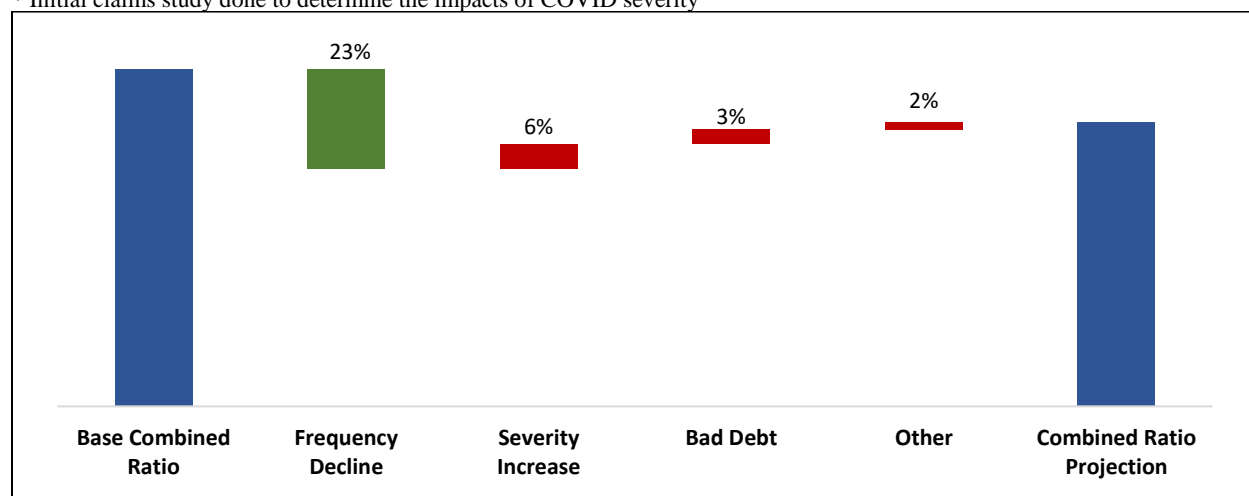
Given the projected impact on the Combined Ratio, Allstate will issue a SIPP to Motorcycles in an amount equal to 15% of their May premiums, subject to a \$10 minimum. As seen in the COVID-19 Premium Refunds, Credits, and Reductions Worksheet, this minimum results in a total payment equal to approximately 25% of May Motorcycle premiums. As mentioned above, Motorcycle was not included in the SIPP for March and April since early indicators were not apparent. Allstate believes the total 25% SIPP for May covers any small payment that may have been warranted in prior months.

When customers receive their renewal offers, they are informed of the mileage band they have been classified in and invited to contact their Allstate representative if the information is incorrect.

Exhibit 1: Motorcycle California SIPP Quantifications

Metric	Assumption	Combined Ratio
Frequency	Using a 7-year historical average, March through May declines of -17%, -36%, and -28% respectively	-23%
Severity*	Assume severity will be felt for longer than frequency as parts, salvage, and subrogation will be on a lag; Severity offset quantified as 25% of frequency benefit	6%
Bad Debt	Increase in Special Payment Plan enrollments will result in higher premium write offs in 2020	3%
Additional Considerations	Accidents for Policies in Cancelled status, Late Reported Claims	2%
Total		-12%

* Initial claims study done to determine the impacts of COVID severity



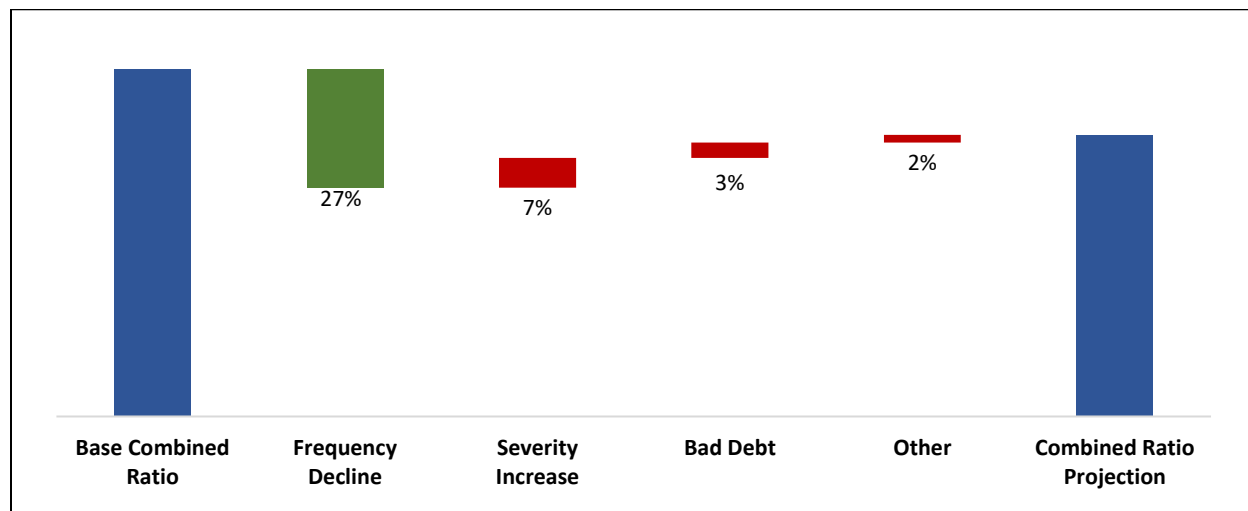
Motorhome

Given the projected impact on the Combined Ratio, Allstate will issue a SIPP to Motorhome equal to 15% of their May premiums, subject to a \$10 minimum. As seen in the COVID-19 Premium Refunds, Credits, and Reductions Worksheet, this 15% SIPP results in a total 22% payment for Motorhome May premiums due to the relatively low average premium in Motorhome and the \$10 minimum

When customers receive their renewal offers, they are informed of the mileage band they have been classified in and invited to contact their Allstate representative if the information is incorrect.

Exhibit 2: Motorhome California SIPP Quantifications		
Metric	Assumption	Combined Ratio
Frequency	Using a 7-year historical average, March through May declines of -35%, -22%, and -19% respectively	-27%
Severity*	Assume severity will be felt for longer than frequency as parts, salvage, and subrogation will be on a lag; Severity offset quantified as 25% of frequency benefit	7%
Bad Debt	Increase in Special Payment Plan enrollments will result in higher premium write offs in 2020	3%
Additional Considerations	Late reported claims and volatility of line	2%
Total		-15%

*Initial claims study done to determine the impacts of COVID severity



Commercial Auto

At the time of Allstate's first SIPP announced on April 6, 2020, the decline in commercial auto frequency was not as apparent as Private Passenger Automobile. Therefore, Allstate did not issue a SIPP to Commercial Auto policyholders. However, as seen in Exhibit 3, the frequency continued to deviate further below prior year in April and May.

Given the projected impact on the Combined Ratio, Allstate Business Insurance will issue a SIPP to Commercial Auto policyholders equal to 15% of their March, April and May monthly premiums. This equates to an aggregate SIPP of approximately \$2.4M.

March, April, and May Payback

- In determining the SIPP, Allstate Business Insurance took actual experience of -14%, -49%, and -27% for March, April, and May respectively
- The frequency benefit was slightly offset by other factors such as the before mentioned impacts on claim severities, expanded coverage, patterns of premium payments, and investment returns.
 - Severity pressure emerged at a higher rate than anticipated and is expected to continue over the next several months. Allstate Business Insurance's recorded position has been adjusted to reflect these impacts.
 - To assist customers during this unprecedented time, Allstate Business Insurance implemented Deferred Billing in March, resulting in higher bad debt projections.
- Weighing all these considerations, Allstate Business Insurance will provide a payback to reflect the expected performance throughout May. Please refer to Exhibit 3 below for a quantification of the March, April, and May SIPP.

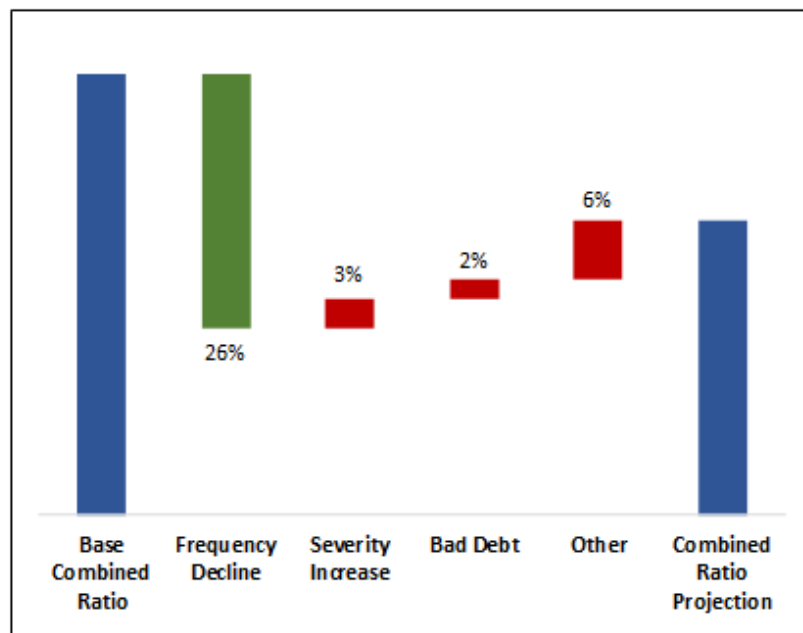
Eligibility and Payment

- Policyholders with an active commercial auto policy on the last day of each individual calendar month (March 31, 2020; April 30, 2020; May 31, 2020) are eligible to receive a payback
- Customers also must have made at least one payment on the policy to be eligible
- Policies with comprehensive coverage only are not eligible
- Commercial auto customers will receive the payback through a Premium Credit given at the next installment or renewal equal to the amount of the SIPP. Otherwise, customers without a balance due will receive a SIPP based on the payment method used

Exhibit 3: California SIPP Quantifications – March, April, and May

Metric	Assumption	Combined Ratio
Frequency	March decline of -14%, April decline of -49%, May decline of -27%	-26%
Severity*	5% additional increase over planned amount for 3 months - (assume severity will be felt for longer than frequency as parts, salvage, and subro will be on a lag)	3%
Bad Debt	Rollout of Deferred Billing will result in higher premium write offs in 2020	2%
Other	Impacts from Policy Liberalizations, Accidents for Policies in Cancelled status, Late Reported Claims	6%
Total		-15%

*Severity offset quantified as 25% of Frequency Benefit



Property

Business Owners Policy

At the time of Allstate's first SIPP announced on April 6, 2020, BOP frequency results did not show the same reduction as Private Passenger Automobile. BOP frequency increased as a result of business interruption claims related to COVID-19. However, the BOP policy has a virus exclusion and many of these claims were closed without payment. Adjusting for these claims, frequency from March through May declined by -10%. To account for this reduction, Allstate Business Insurance will provide a SIPP payment equal to 10% of March, April, and May premiums to BOP policyholders, for an aggregate SIPP of approximately \$208k.

March, April, and May Payback

- Shelter-in-place orders, drove a significant closure of businesses in March, April, and May. As a result:
 - BOP frequency declined by -10% decline when adjusting for business interruption claims due to COVID19.
 - Allstate Business Insurance also implemented Deferred Billing starting in March to assist customers during this unprecedented time. This is projected to result in higher bad debt amounts.
- Weighing all these considerations, Allstate Business Insurance will provide a 10% SIPP of the monthly premium for the months of March, April and May.
- Please refer to Exhibit 4 on the following page for a quantification of the March, April, and May SIPP.

Eligibility and Payment

- Policyholders with an active BOP policy on the last day of each individual calendar month (March 31, 2020; April 30, 2020; May 31, 2020) are eligible to receive a payback
- Customers also must have made at least one payment on the policy to be eligible
- BOP policyholders will receive the payback through a Premium Credit given at the next installment or renewal equal to the amount of the SIPP. Otherwise, customers without a balance due will receive a return of SIPP based on the payment method used

Exhibit 4: California SIPP Quantifications – March, April, and May

Metric	Assumption	Combined Ratio
Frequency	March-May decline of -10%	-10%
Other	Impacts from Deferred Billing, higher Severity, Late Reported Claims	1%
Total		-9%

